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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF TUCSON ELECTRIC POWER
COMPANY FOR APPROVAL TO REVISE
ITS DSM SURCHARGE BEGINNING
JUNE 1, 2009

DOCKET NOS. E-01933A-07-0402
E-01933A-05-0650

DECISION NO. 71106ORDER

Open Meeting
May 27 and 28, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "the Company") is engaged in providing electric power within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On March 24, 2009, TEP filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70628.

3. The TEP DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor is based on projected spending for the Company's DSM¹ programs. Funding for these programs is collected based on the adjustor rate approved by the Commission.

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¹ DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand ("kW") and/or to reduce energy consumption ("kWh" or "therms") in a cost-effective manner. DSM may include energy efficiency, load management, and demand response.

Under- or over-collections are then “trued-up” at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

4. Prior to the Commission’s Decision No. 70628, the Company’s DSM costs were recovered through base rates. The Decision established the DSM adjustor and set the current adjustor rate at \$0.000639 per kWh, to be applied to all kWh sales. Also, pursuant to Decision No. 70628, TEP was to file an application by April 1st of each year for Commission approval to reset the adjustor rate, with the new rate to take effect on June 1st of each year.

5. The Company is requesting an increase of \$0.000214 in the adjustor rate, from the current \$0.000639 per kWh to \$0.000853 per kWh. The increase is based on an under-collected balance from December 2008 and a projected 2009 budget for TEP’s DSM portfolio, including the cost of developing a database designed to assist in program management and track program results.

6. Currently, the TEP DSM programs include the following: (i) the Education and Outreach Program; (ii) the Low-Income Weatherization Program; (iii) the Guarantee Home Program; (iv) the Efficient Home Cooling Program; (v) the Shade Tree Program; (vi) the Energy Star Lighting (“CFL”) Program; (vii) the Non-Residential Existing Facilities Program; (viii) the Small Business Program; and (ix) the Efficient Commercial Building Design Program. The proposed budget includes downward adjustments for some programs due to the current economic climate.

7. The adjustor rate proposed by the Company also includes amounts for three items not yet approved by the Commission: (i) a proposed increase² in the TEP CFL program budget, which was filed with the Commission on April 9, 2009, and which is based on the program’s high participation rates since inception; (ii) \$57,585 (20%)³ of the cost of the proposed Baseline Study for TEP, which was filed with the Commission on March 17, 2009; and (iii) 25 percent of the budget for a Direct Load Control program not yet filed with the Commission. (The Company is

² From the \$721,000 originally proposed for 2009 to \$1,490,724.

³ The \$57,585 (20%) was originally based on a preliminary budget for the baseline study. Although the overall budget was later modified, the Company has indicated that \$57,585 remains the appropriate spending level for the 2009-2010 program year.

requesting \$212,888 for the Direct Load Control program, which would equal 25 percent of the proposed program's budget.)

8. The table below details TEP's proposed costs for 2009 and 2008 actual expenditures.

| Program | 2009 Budget | 2008 Expenditures |
|--|------------------|--------------------------|
| Education and Outreach | \$551,000 | \$402,158 |
| Direct Load Control (25%) | \$212,888 | -0- |
| Residential Efficiency Programs | | |
| Low-Income Weatherization | \$261,620 | \$136,518 |
| Guarantee Home | \$2,414,536 | \$1,676,928 |
| Efficient Home Cooling | \$428,024 | \$61,706 |
| Shade Tree Program | \$160,000 | \$137,827 |
| Energy Star Lighting (CFL) | \$1,490,724 | \$344,287 |
| Non-Residential Efficiency Programs | | |
| Non-Residential Existing Facilities | \$602,900 | \$102,081 |
| Small Business | \$1,102,800 | \$91,109 |
| Efficient Commercial Building Design | \$449,574 | \$33,956 |
| Program Totals | \$7,674,067 | \$2,986,570 |
| Measurement, Evaluation and Research | -0- ⁴ | \$337,778 ⁵ |
| Customer Care and Billing ("CC&B") database development | \$39,595 | -0- |
| TEP Baseline Study allocation | \$57,585 | -0- |
| Totals, with MER, CC&B, Study costs | \$7,771,247 | \$3,324,347 ⁶ |
| Amount under-collected for 2008 | \$378,007 | |
| Total proposed to be collected through DSM Adjustor for 2009 | \$8,149,254 | |

9. Staff has recommended that the DSM adjustor rate be reset to include the 2008 costs already incurred, \$57,585 (20%) percent of the Baseline Study cost, and the costs projected for existing programs for 2009, including the higher budget for the CFL program. The Company has indicated that its projections are reasonable, given the level of program activity and participation. Staff's review of TEP's semi-annual DSM progress report for July-December 2008, filed April 1, 2009, also indicates that the level of funding proposed by the Company for its existing programs is reasonable.

⁴ Zero because measurement, evaluation and research work already included in individual program budgets for 2009.

⁵ Includes costs for work on the CC&B database in 2008; work on the CC&B database is broken out separately for 2009.

⁶ Most of this amount was collected through base rates, prior to the December 2008 Settlement Agreement. In December 2008 \$606,662 was expended on DSM program; of that amount \$228,655 was collected through the DSM Adjustor, leaving a balance of \$378,007 to be collected for 2008.

10. Staff has recommended that the \$212,888 proposed for the Direct Load Control program not be included in the DSM adjustor rate for 2009. The application for approval of the Direct Load Control program has yet to be filed for Commission approval and there is insufficient information on which to base a Staff recommendation for this amount. Subtracting the \$212,888 for Direct Load Control from the proposed \$8,149,254 total results in a total of \$7,936,366 to be recovered, at a DSM adjustor rate of \$0.000831 per kWh (an increase of \$0.000192 per kWh).

11. Typical monthly bill impacts for Residential customers are listed below:

| Average monthly usage by Season | kWh | Monthly increase from Company proposal (\$0.000214) | Monthly increase from Staff proposal (\$0.000192) | Monthly total based on Company proposal (\$0.000853) | Monthly total based on Staff proposal (\$0.000831) |
|---------------------------------|------|---|---|--|--|
| Summer | 1131 | \$0.24 | \$0.22 | \$0.97 | \$0.94 |
| Winter | 694 | \$0.15 | \$0.013 | \$0.59 | \$.58 |

12. In order to protect TEP's low income residential customers from an increase in their monthly bills, we believe that any residential customer on a TEP low income discount rate should not be charged the DSM rate at this time. The monies that TEP would otherwise recover from the low income residential customers should be retained in TEP's DSM account and be deal with in the 2010 adjustor docket. This initiative would have no effect on the DSM rate all other retail customers would pay at this time.

CONCLUSIONS OF LAW

1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated May 12, 2009, and concludes that it is in the public interest to approve the TEP DSM Surcharge beginning June 1, 2009, as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Tucson Electric Power Company DSM adjustor rate be and hereby is, set at a level of \$0.000831 per kWh, beginning June 1, 2009.

1 IT IS FURTHER ORDERED that recovery for a Direct Load Control program not be
2 included in the current DSM adjustor rate at this time.

3 IT IS FURTHER ORDERED that any residential customer on a Tucson Electric Power
4 Company low income discount rate shall not be charged the Demand-Side Management rate and
5 the monies that Tucson Electric Power company would otherwise recover from the low income
6 residential customers shall be retained in Tucson Electric Power Company's Demand-Side
7 Management account and be dealt with in the 2010 adjustor docket.

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1 IT IS FURTHER ORDERED that Tucson Electric Power Company shall provide
2 appropriate notice of the Commission's consideration of this matter (exempting low income
3 customers for DSM and recovery of DSM funds not paid by low income customers) to its
4 customers and all parties of record in its last permanent rate case.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.


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7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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9 CHAIRMAN

COMMISSIONER

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12 COMMISSIONER

COMMISSIONER


COMMISSIONER

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14 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this 5TH day of JUNE, 2009.

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19 MICHAEL P. KEARNS
20 INTERIM EXECUTIVE DIRECTOR

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22 DISSENT: 

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24 DISSENT: 

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SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY
DOCKET NOS. E-01933A-07-0402 and E-01933A-05-0650

Mr. Peter Nyce
Office of the Judge Advocate Gen.
901 North Stuart Street, Suite 713
Arlington, Virginia 22203-1644

Mr. Michael McElrath
Phelps Dodge Mining Company
One North Central Avenue
Phoenix, Arizona 85004

Mr. Philip J. Dion
UniSource Energy Services
One South Church Avenue, Suite 200
Tucson, Arizona 85701

Ms. Deborah Scott
Pinnacle West Corporation
400 East Van Buren Street
Phoenix, Arizona 85004-2202

Mr. Michael W. Patten
Mr. Jason Gellman
Roshka DeWulf & Patten, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85044

Mr. Daniel Pozefsky
RUCO
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Michael Kurtz
36 East Seventh Street, Suite 2110
Cincinnati, Ohio 45202

Mr. Greg Patterson
916 West Adams, Suite 3
Phoenix, Arizona 85007

Mr. Kurt Boehm
Boehm, Hurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Mr. C. Webb Crockett
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

Mr. Eric Guidry
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Mr. William Sullivan
501 East Thomas Road
Phoenix, Arizona 85012-3205

Mr. Nicholas Enoch
349 North Fourth Avenue
Phoenix, Arizona 8500

Mr. Dan Neidlinger
Neidlinger & Assoc.
3020 North 17 Drive
Phoenix, Arizona 85015

Mr. Timothy Hogan
202 East McDowell Road, Suite 153
Phoenix, Arizona 85004

Ms. Cynthia Zwick
1940 East Luke Avenue
Phoenix, Arizona 8501

Mr. Gary Yaquinto
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Mr. Michael Grant
2575 East Camelback Road
Phoenix, Arizona 85016-922

S. Childers
Low & Childers, P.C.
2999 North 44th Street, Suite 250
Phoenix, Arizona 85018

1 Ms. Ruth Kern
2 8222 South 48th Street, Suite 220
3 Phoenix, Arizona 85044

4 Mr. Thomas Mumaw
5 Post Office Box 53999, MS 9905
6 Phoenix, Arizona 85072-3999

7 Ms. Barbara Klemstine
8 Post Office Box 53999, MS 9905
9 Phoenix, Arizona 85072-3999

10 Mr. David Berry
11 Post Office Box 1064
12 Scottsdale, Arizona 85252-1064

13 Mr. Christopher Hitchcock
14 Law Offices of Christopher Hitchcock, PLC
15 One Copper Queen Plaza
16 Post Office Box AT
17 Bisbee, Arizona 85603

18 MR. Daniel Haws
19 OSJA, ATTN: ATZS-JAD
20 USA Intelligence Center and Ft. Huachuca
21 Ft. Huachuca, Arizona 85613-6000

22 MR. Lawrence Robertson, Jr.
23 2247 East Frontage Road, Suite 1
24 Post Office Box 1448
25 Tubac, Arizona 85646

26 Mr. Raymond Heyman
27 Unisource Energy Corporation
28 One South Church, Suite 1820
Tucson, Arizona 85701

Ms. Michelle Livengood
Tucson Electric Power Company
One South Church Avenue, Suite 200
Tucson, Arizona 85701

Mr. David Couture
4350 East Irvington Road
Post Office Box 711, Mail Stop OH 122
Tucson, Arizona 85702

Mr. Jeff Schlegel
1167 West Samalayuca Drive
Tucson, Arizona 85704-3224

Mr. John O'Hare
3865 North Tucson Boulevard
Tucson, Arizona 85716

Mr. Billy Burnett
3341 North Riverbend Circle East
Tucson, Arizona 85750-2509

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007